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The impact of UEFA's Financial Fair Play Regulations on earnings management

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Abstract

The scope of this paper is to analyze the impact of the implementation of UEFA's Financial Fair Play Regulations on the earnings management behavior of 84 European football clubs, for the period under investigation 2009-2011. This study, where earnings management was measured by income smoothing and accrual manipulation, indicates that the implementation of UEFA's Financial Fair Play Regulations will increase earning manipulation. Thus, is very important that authorities (government, auditors) take all the necessary actions so as to protect shareholder's and various stakeholder's interests.

KEYWORDS: Earnings management, Earnings quality, UEFA's Financial Fair Play, Football clubs.

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Chapter 1: Introduction

In the current decade, many European Football clubs have been in financial distress due to the increasing expenses that they face. The wider financial crisis has resulted in an increasing number of Football Clubs that report financial loss. The crisis appears to have a negatively impact on the ability of the clubs to control their costs, as well as in the availability of financing and the assessment of their going concern. Under the concept that is well accepted for all organizations, clubs cannot spend more than their generated revenues. There are many clubs that have violated this concept by spending more than they earn. The financial distress has been typical for the European football for the last years. To be more specific, out of the 733 European elite division clubs 56% reported net losses during the financial year 2009. This losses increased by 85% compared to the previous year 2008. A group of 73 clubs spent more than 100% of their revenues on wages alone. And finally should be mentioned that 53% of all clubs reported a deteriorated net equity position. During 2009-2010 football clubs across Europe's top divisions reported a loss of €1.6bn. The teams that appear to face more financial problems are Manchester City and Chelsea which have reported losses of €165m and €65m respectively. Should be mentioned thought that the €1.6bn loss was principally due to inflating wages and transfer fees. It appears that the clubs' income actually increased, from €12bn in 2008-2009 to €12.8bn while their costs were increasing faster, from €13.3bn in 2008-2009 to €14.4bn.[1] The financial problems of the European football clubs are proliferating every year since 2006. If we take into consideration that the reported losses in 2006 were just €216m we will realize how fast the situation is worsening.[2]

UEFA had realized this worsening situation and starting from the year 2004/2005 introduced the Club Licensing System. According to which each club should adopt a series of quality standards in order to participate in the UEFA's championships. These quality standards could be categorized into the following groups: sporting, infrastructure, personnel, legal and financial. In 2009, under the idea of monitoring the financial performance of the clubs UEFA introduced the

[1] http://www.guardian.co.uk/football/2012/jan/25/uefa-sanction-financial-fair-play
[2] http://www.telegraph.co.uk/sport/football/european/9038245/Uefa-reveal-Europes-top-clubs-made-2010-losses-of-1.6bn.html

Financial Fair Play Regulations (UEFA, 2010a). The regulations aim to bring an end to excessive spending, inflated transfer fees and exorbitant player salaries. According to the regulations the clubs are obliged, over a period of time, to balance their books or break even. It requires that clubs do not spend more than they earn[3]. They require from the clubs to have greater budgeting discipline and a more rational financial behavior. The new regulations came into effect in January 2012, but will only be imposed in July 2014. During this period, clubs will be allowed to run up a maximum of $64 million in losses. Higher-risk clubs that fail certain indicators will also be required to provide budgets detailing their strategic plans. The Financial Fair Play Regulations requires clubs to spend within a budgetary framework. They aim to make the European football healthier and more viable for the long-term encouraging in this way the investment in youth development and sport facilities[4]. As we mentioned, the development and implementation of the rules came as a result of the bad financial situation of the European football. An incident which contributed in the development and implementation of the regulation was the fact that during 2008 the aggregate loss of Europe's top clubs was €578 million. It appears that during that year 47% of clubs reported losses but the fact that 35% of clubs reported negative equity (assets less liabilities) in their balance made things even worst[5].

Under the current economic circumstances, it is easier for earnings management to arise. Earning is the most important measures for evaluating the firm's performance. They are used as performance measure by a wide range of users like executive compensation plans, in debt covenants, in the prospectuses of firms seeking to go public, and by investors and creditors. As a result sometimes managers may attempt to manage corporation's earning in order to improve the impression they give, but if doing so leads to excessive earnings management. Earnings management is described to be the use of the flexibility in accounting principles that allow managers to influence the reported income to be larger or smaller than it would otherwise be. Sometimes earnings management causes agency problem which occurs when investors and other stakeholders may not be able to make optimal decisions concerning the company based on numbers that do not reflect the true financial conditions of the firm Neu (1991). Shareholder could be benefit from earnings management only if it is used to give information that are not

[3] http://www.uefa.com/uefa/footballfirst/protectingthegame/financialfairplay/news/newsid=1494481.html
[4] http://www.uefa.com/uefa/footballfirst/protectingthegame/financialfairplay/news/newsid=1585317.html
[5] The European Club Footballing Landscape 2009

included in the company's financial report. Some researches call it beneficial earnings management (Subramanyam, 1996). Arya (2003) supports that the spread of information make each person to have different piece and none has complete information. As a result, companies that manage earnings give more complete information compared with those that do not use earnings management. But on the other hand, managers can use earnings management to give negative effect on the shareholders by manipulating the company's performance for their own compensation plan. As we mentioned this might cause agency conflict between management and shareholders (Holthausen, 1995; DeAngelo, 1988; Dechow and Sloan, 1991). In the current decade, the collapse of many firms like Enron, Arthur Anderson and WorldCom led researchers to the investigation of earnings management which has become a concern throughout the world.

As we mentioned above, corporation attempt to manage their image through earnings and thus it is important to understand the processes that may drive to this phenomenon. There are many researchers trying to understand these processes. Among the most delighting studies could be mentioned those of Schipper (1989), Healy and Wahlen (1999) and Dechow and Skinner (2000) that focus on earnings management and the study of Fields, Lys and Vincent (2001) that refers to the accounting choices. These studies have created structure in the enormous number of articles dedicated to the subject.

This study contributes to the existing literature by providing evidence to the assumption that the implementation of the Financial Fair Play Regulation will increase earnings management of football clubs in order to meet the UEFA's requirement. At the best of our knowledge there is no other study that investigates the impact of the implementation of the Financial Fair Play Regulation on earnings management of European football clubs. The scope of this study is to make people that have a stake on football clubs to consider the probability that clubs may increase earnings management after the implementation of Financial Fair Play Regulations. Beyond doubt, earnings manipulation deteriorates the quality of reported earnings. Siegel (1991) in his study highlights characteristics that raise earnings quality. Among them, he mentioned the degree to which the true economic reality of the firm is reflected to its reported earnings. Earnings quality is even more important for large-size firms like football clubs because there are many stakeholders like shareholders or investment analysts that make investment decisions based on this information (reported earnings). They will be malcontent to know that the reported

earnings of the club do not reflect its true economic situation and may not invest again in this firm. Being a public visible firm also attract the attention of the government because firms like this affect a quite large percentage of the society (people that work for this firm or people that have invested in this firm) and government should protect the interest of these people. Furthermore, auditors should be more careful when audit large-size firm because these firms have more sophisticated tools to manipulate their earnings.

The rest of the paper is organized as follows: first a discussion of the relevant literature on definition of earnings management, motives for earnings management and ways of detecting earnings management. At the second part we give a brief overview of the Financial Fair Play Regulation. The third part is dedicated at the statement of the main research hypothesis. In the fourth part there is the description of the data used in the study and the methodological framework. The fifth part represents the empirical results and finally the sixth part shows the main conclusions, policy implications and suggestions for future research.

Chapter 2: Literature Review

In this part of the paper we represent a literature review of the definition of earnings management, the motives that appear to increase the level of earnings manipulation and finally the ways that are discovered in detecting earnings management.

2.1 Definition

Earnings management has been defined by many researchers in several different ways but Schipper (1989) defined Earnings Management as "... a purposeful intervention in the external financial reporting process, with inventing of obtaining some private gain (as opposed to merely facilitating the natural operation of the process)". Also, Healy and Whalen (1999) said "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers". Ronen and Sadan (1981) argue that managers smooth income either by allocating the effect of transactions over time to change the income of particular periods, or via classifications of non-recurring items. Healy and Wahlen (1999), Fudenberg and Tirole (1995), and also Dechow and Skinner (2000) claim that earnings management can be done through faster selling, change product shipping schedule, slowing research and development's expenses and also maintenance's expenses. On the other hand, Lo (2007) supported that earnings management could be grouped in two categories, real earnings management which affects cash flow, and accrual management which can be done through changes in accounting estimation and policies but do not affect the company's cash flow. Both groups of earnings management have different cost, on the company but the real earnings management affects more the corporation Roychowdhury (2006). The research of Bruns and Merchant (1990) and Graham (2005) supports that managers tend to use real earnings management rather than accrual management because accrual manipulation is considered to causes higher risk. There is also the study of Jiraporn (2006) who categorize earnings management into two groups: beneficial earnings management and opportunistic earnings management. In order to consider the earnings management useful it should be used in order to communicate private information that manager has about company's prospect (Arya, Glover and Sunder, 2003; Demski, 1998; Subramanyam. 1996; Watts and

Zimmerman, 1986). On the contrary, in order to consider earnings management as opportunistic the manager should use it for his own benefit as Healy and Palepu (1993) support.

Earnings manipulation is done by the managers of the company in many different ways. This is possible because of the fact that managers are responsible for estimating future economic events which are reflected in the financial reports such as expected lives and salvage values of long term assets, deferred taxes, losses from bad debt and asset impairment, obligations for pension benefits and other post employment benefits. Managers must also choose among acceptable accounting methods such as the straight line or depreciation methods or the LIFO, FIFO, or the weighted average inventory cost methods. Preparing financial statement under General Accepted Accounting Principles (GAAP) guidelines provide flexibility in reporting economic and coupled with market reliance on short-term profitability, makes earnings management practically irresistible. Under Generally Accepted Accounting Principles (GAAP), corporations through accrual accounting recognize the financial effects on an entity of transactions and other events. The nature of accrual accounting provides managers with a great deal of discretion in determining the reported earnings of the firm in any given period.

Another point to note in our definition is the objective of earnings management to mislead the stakeholder about the economic performance of the company. This can occur when managers have access to information that are not available to outside stakeholders or when managers believe that stakeholders cannot undo earnings management. Based on the market efficiency theory the security prices are based on the available financial information. To be more specific, investors use financial information to decide whether to buy, sell, or hold securities. When the information is incorrect, it may not be possible for the investors to value securities correctly.

To sum up, management's use of judgment in financial reporting has costs and benefits. The costs include the potential misallocation of resources that arises from earnings management and benefits include potential improvements in management's credible communication of private information to external stakeholders. Thus, is very important for standard setters to understand when standards that permit to exercise judgment in reporting increase the value of accounting information to users or they reduce it.

2.2 Motives for earnings management

The interaction among earnings and stock markets reaction can indeed push management towards earnings management. Stock market is really risky and that is why investors rely on analyst's forecasts about the performance of the stock market. As a consequence, companies try to meet/beat the analysts' forecasts to have higher return (Bartov, 2002). In order to do so, the manager of the company sometimes involves in earnings management. There have been several research papers trying to find out why managers try to meet or beat expectations as well as to find evidence which prove that they use earnings management to reach this benchmark. If the company fails to meet the analyst's forecasts then it will have a negative impact on its stock return as well as the manager's compensation (Matsunaga and Park, 2001). Payne and Robb (2000) supported that the more the analysts agree about the future of the company the stronger will be the incentive for the company to meet these forecasts. The existence of the relationship between forecasts and earnings management make it possible for the researchers to detect those companies that are likely to involve in earnings manipulation. Kasznik (1999) agrees with the research of Burgstahler and Eames (1998) which argued that firms manage earnings to meet financial analysts' forecasts. In this signaling framework, Moses (1987) finds that managers report earnings that are closer to expectations and that incentives to smooth income increase when there is divergence between actual and expected earnings. Burgstahler and Eames (2003) also support in their research that firms manipulate their earnings because they do not wish to report small losses or earnings decreases. Matsumoto (2002) at her study tried to find out the characteristics of firms that might involve in earnings management to avoid negative earnings surprises finding that firms with higher institutional ownership and firms who rely on implicit claims with their stakeholders are the firms that engage more in earnings management. On the other hand, Ghosh et al. (2005) suggests that companies with an increase in earnings and revenues are less suspicious for earnings manipulation.

There are studies that have find out direct link between the earnings management and the financial benefit of the firm's management. Earnings management's connection with insider trading is documented by Beneish and Vargus (2002), Park and Park (2004) and Cheng and Warfield (2005). In compliance with this study there is the research of Healy (1985) which associates bonus contracts with earnings management. It seems to be another relationship

between earnings management and stock compensation through stock options (Baker, 2003; Bartov and Mohanram, 2004; Kwon and Yin, 2006).

Deangelo (1988) refers in the existence of earnings management in buyout cases, Teoh, Welch and Wong (1998a-b), Rangan (1998) and Dechow, Sloan, and Sweeney (1996) also suggested that firms manage earnings prior to seasoned equity offers and IPO's. The same conclusion made DuCharme (2001) and Shivakumar (2000) at their studies. Teoh, Welch and Wong (1998a-b), Rangan (1998) and Dechow, Sloan, and Sweeney (1996) at their study also support that managers want to manage pre-issue earnings in order to improve investors' expectations about future performance. However, seems to be a cost associated with earnings management. Teoh, Welch, and Wong (1998b) supports that companies that have engaged in earnings management prior to their initial public equity offerings experience poor stock return performance in the following three years. Despite the equity offering, a share repurchase is also a reason for engaging in earnings manipulation. Vafeas (2003) at his study found evidence that managers reduce earnings through accruals before stock repurchase. Bens (2003) supports that managers use the process of share repurchase as an earnings manipulation tool when the company's earnings are below the desired level and its earnings per share is lower. But Larcker (2003) questioned these results as he claimed that this is not correct procedure for managing earnings and supported that managers do not use such procedures.

As we mentioned above, earnings management is defined as process of altering financial information in order to achieve certain goals. One of these goals seems to be the fact that managers through earnings management are signaling private information to the public. There are many articles dedicated to that motive such as the research of Rosner (2003) who examined the fact that firms that are about to go bankrupt engage in earnings management in order to hide their bad economic condition. Louis and Robinson (2005) suggest that through accrual (in combination with stock split) managers provide private information to the public. They support that it is the only way managers communicate their optimistic view about the company's future. There are occasions that the firm fail to inform the public for the true goal of their accounting practices. In the line with this fact is the study of Shane and Stock (2006) who find evidence that analyst do not identify the change in earnings policy as an optimal tax planning and these firms may be penalized by the market for this change in their tax planning strategy. Furthermore, Tucker and Zarowin (2006) also supported that managers engage in earnings manipulation in

order to reveal information about the future performance of the company concerning its expected earnings and cash flows.

Firms, through earnings manipulation, try to influence other stakeholders that use its financial report in order to make decisions. Among these stakeholders the most important seems to be the government. Since it is believed that a firm could involve in earnings management in order to avoid governmental interference. Haw et al (2005) researched for increasing earnings manipulation in China as a response to the regulation that the government had made which requires that if a firm want to issue bond or offer shares should maintain a ten percent return on equity. Johnston and Rock (2005) studied decreasing earnings management in companies that are threatened by the Superfund Act. It is obvious that when earnings are the basis of tax calculation then companies may engage in earnings manipulation in order to avoid paying tax (Monem, 2003).

Furthermore, there are articles that provide evidence of earnings manipulation when the company changes its Chief Executive Officer (CEO) Godfrey (2003). It seems like the new CEO indicate that the company engage in downwards earnings manipulation in the year of change and upwards earnings manipulation in the following years. Also it is possible that the company manipulate more its earnings when its CEO is retiring as Reitenga and Tearny (2003) claimed at their study. It seems like the CEO that is retiring use upwards earnings management in order to give a good impression about his performance on the company and maybe get a sit on the board of the company.

Except for its external stakeholders, the earnings of a company are used as a measure of performance also in the intra-company evaluation. A corporation may manage its earnings in order to avoid budget ratcheting. Leone and Rock (2002) searched the accruals of several companies in order to study the effect of budget ratcheting on earnings manipulation. The hypothesis that under the ratchet effect, managers will choose to use income-decreasing unexpected accruals when the earnings innovations are transitory is supported by their empirical evidence.

Murphy (2001) studied the link between the nature of performance standards in incentive contracts and earnings smoothing. He supported that companies which use externally determined standards are less likely to smooth earnings than those companies that use internal standards.

According to Beidleman (1973) and Lipe (1990) through earnings management managers reduce the variability of earnings minimizing in this way the uncertainty of the shareholders. However, it is said that abnormal accruals tend to reverse over time being detectable by investors. On the other hand, Schipper and Vincent (2003) claim that manipulating earnings in contravention of sound accounting practices adversely affects shareholders.

There seem to be many motivations that lead to earnings management. Healy and Whalen (1999) summarize the major motivations to manage earnings which are:

- Public offerings (enhancing financial reports prior to an IPO or secondary equity offering to attract better valuations),
- Executive compensation (increasing reported earnings to increase executive bonuses),
- Financial liabilities (fulfilling financial requirements in loan covenants,
- Regulation (Reducing regulation costs or enhancing regulatory benefits)

The research of Defond and Jiambavlo (1994) associated earnings management with debt covenants. It is claimed that earnings management is done to avoid rules breaking in a loan contract, reduce regulatory cost, or increase regulatory benefit (Cornett, 2008). Trueman and Titman (1988) suggest that sometimes managers seem to smooth income in order to make the firm appear a less risky investment than it really is. Beneish (2001) claimed that an insider trading should be added to the list of motives for earnings management. The concept behind this is the fact that if managers are aware of mis-statement of profits, they can benefit by trading the securities.

Easterwood (1997), and Erickson and Wang (1999) supported that one reason for earnings management is when companies are about to involve in takeover or merger settings. The former has found evidence that targets of hostile takeover involve in earnings management in the period prior to the takeover. In the case of mergers it has been found that firms engaging in stock for stock mergers manipulate their earnings before the merger because they want to inflate the company's stock price reducing in this way the cost of the merger.

There is evidence suggesting that earnings management it is also done by the major shareholder and may cause loss for the minor shareholder. Johnson (2000) refers to this as

"tunneling" which is the transfer of the company's resources to major shareholder's benefit. Many companies of developing countries are doing tunneling activities. Thus, the companies that do tunneling will involve in earnings management more that the companies that do not.

2.3 Detecting earnings management

Earnings Management has been identified when earnings indirectly or directly affect share price, proxy fights, labor contracts, equity issues management compensation or government regulations. Earnings manipulation has the propensity to deceive and that is why it is difficult to detect it. It has been studied from diverse perspectives: income smoothing Moses (1987), and Burgstahler and Dichev (1997), management compensation Healy (1985), McNichols and Wilson (1988), Holthausen (1995), and Gaver, Gaver and Austin (1995), ownership control or management buyout DeAngelo (1986 and 1988) and Perry and Williams (1994), political costs issues Liberty and Zimmerman (1986), Jones (1991), Cahan (1992), and Maydew (1997) and equity issues Aharony, Lin and Loeb (1993), Friedlan (1994), Loughran and Ritter (1995 and 1997), Rangan (1998), Teoh (1998), Shivakumar (2000), and Yoon and Miller (2002a). Gaver (1995) and Burgstahler and Dichev (1997) found evidence of earnings management consistent with income smoothing.

Hayn (1995), Burgstahler and Dichev (1997), Degeorge (1999) at their papers supported that there are unusual patterns in the distribution of earnings levels, earnings changes, and earnings surprises. Burgstahler and Dichev (1997), in particular, show that firms avoid negative earnings. They present nonparametric evidence that the distribution of earnings is ''bunched'' just above zero. Degeorge (1999) shows that the distribution of earnings bunches at a number of points: above zero earnings, above the level of earnings necessary to have stable or growing earnings, and above analysts' forecasts.

Early studies tested the connection between managerial incentives and choices of different accounting methods (Watts and Zimmerman, 1978; Hagerman and Zmijewski, 1979). However, changes in accounting methods are easy for outsiders to detect and therefore have limited success in misleading them. Prior researches have more practical method for detecting earnings management. There are factors that seem to be associated with financial reporting irregularities (Jones, 2008). Specifically, firm size, profitability, leverage and the presence of Big 4 auditor

seem to be one of those. The firm's operating risk seems to be another indication for earnings manipulation (Hribar, 2010). Hilary and Hui (2009) suggest that religiosity influences managers' decisions in a risky operating environment. These papers have inspired a large literature investigating various aspects of managers' incentives to meet or beat simple earnings benchmarks.

The most often used method to determine the level of earnings management is discretionary accruals method. Earnings could be distinguished in two components, cash and accounting adjustment known as accruals. Managers can easily affect the direction and measurement of accruals. The total accruals could be grouped in two components, discretionary accruals and non-discretionary accruals. According to existing studies the modified Jones (1991) model is a very important tool in detecting earnings management. This approach is considered to have "the most power in detecting earnings management" Dechow, Sloan and Sweeney (1995) and "only the Jones and modified Jones models appear to have the potential to provide reliable estimates of discretionary accruals" Guay, Kothari and Watts (1996). If the sample has positive discretionary accruals shows that companies have engaged in increasing income manipulation. On the contrary, if the sample has negative amount of discretionary accruals that indicates that the companies involve in decreasing income manipulation.

There are difficulties in detecting earnings management. As we have mentioned above, managers use real decision in order to manipulate earnings (for example by reducing research and development or advertising expenditures). This could be a methodological problem that researchers face according to Dechow and Sloan (1991), Bushee (1998), Rowchowdhury (2004), Graham (2005). Through 'real' earnings management the managers affect cash flows as well as accruals making it difficult for researchers to document earnings manipulation.

In some studies it is documented that discretionary accruals models have low power in detecting earnings management and can yield biased results for samples of firms with extreme earnings performance (Dechow, 1995; Guay, 1996; Kothari, 2005). Also Yu (2008) at his study has spotted some weakness of the discretionary accruals model in detecting earnings manipulation. This weaknesses seems to be the fact that for the companies that are doing mergers and acquisitions or the companies that discontinue in operation as well as the companies that have significant activities abroad it is inaccurate to used the balance sheet approach to check the

accruals usage and secondly, the discretionary accruals will over estimate a company with an extreme performance, rapid growth and volatile cash flow.

Finally, it is also difficult for the researchers to determine the way that managers achieve certain patterns in earnings distribution as Beaver (2003) and Dechow (2003) support at their studies.

Chapter 3: UEFA's Financial Fair Play Regulations

In the last decade, the number of football clubs that have reported financial losses is increasing. The current financial crisis has created difficult market condition for the European football clubs, which has a negative impact on revenue generation. Also it creates additional challenges for clubs regarding the availability of financing day-to-day operations. The UEFA (Union of European Football Associations) is concerned about this development of the European football. The majority of the football clubs have reported deficits which led them face high debt level. For example, Manchester United, the most valuable soccer club in the world at $1.86 billion, has debts of $756 million as a result of the 2005 takeover by American businessman Malcolm Glazer.[6] High leveraged clubs, unavoidably, experienced liquidity shortfalls that resulted to the delayed payment not only of other clubs but also to the payment of employees, national social insurance fees, and social/tax authorities. As a result, football clubs are facing work stoppages, bankruptcies and spiraling debts which seriously affect playing on the field. On the contrary, there are football clubs that have overcome these liquidity problems with the help of external money that the patron gives them. One of the best known example is FC Chelsea which received about half a billion Euros from its patron. This situation is considered to have a negative impact on the European football systems because a few richest clubs drive up players' salaries and transfer costs, forcing smaller clubs to over-stretch their budgets to compete[7]. Consequently, there is a huge gap between rich-big clubs (including FC Barcelona, Real Madrid, Manchester United, FC Chelsea, AC Milan or Bayern Munich and others, called the "Untouchables" by Deloitte) and small one. The 'Untouchables' will continue to move further away from other clubs until the gap can no longer be closed . As we can see at the figure below there is a huge difference between the revenue of the "Untouchables" and the revenue of the small clubs during the financial year 2009/2010.

[6] Natalie L. St. Cyr. Clarke, Note, The Beauty and the Beast: Taming the Ugly Side of the People's Game, 17 Colum. J. Eur. L. 601, 601 (2011)

[7] http://swissramble.blogspot.gr/2012/09/uefas-ffp-regulations-play-to-win.html

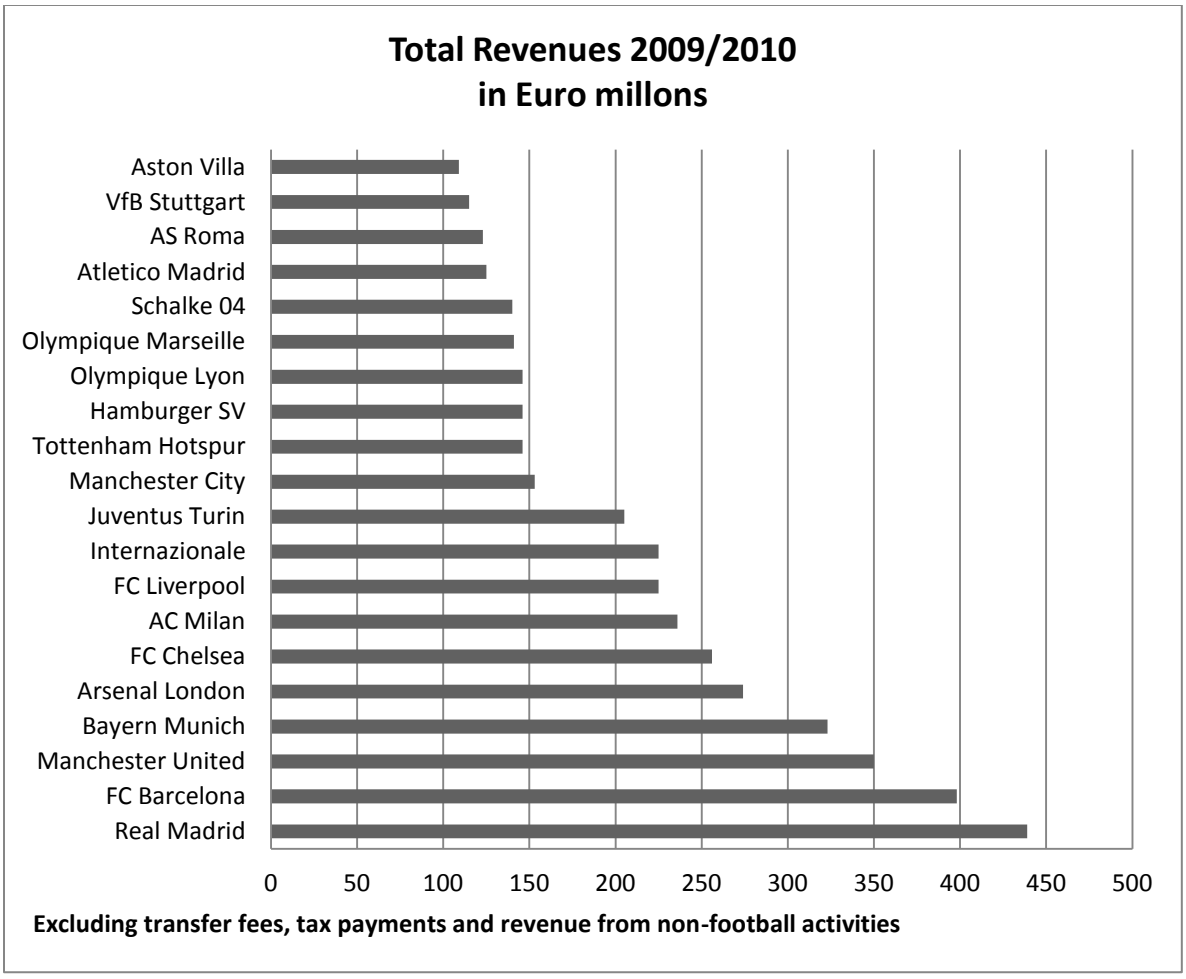

Figure 1: *Total Revenues of football clubs for 2009/2010*[8]

These developments threaten the financial stability and distorted the competitive balance not only between clubs but also between leagues in European football. Requested and consulted by the football family, UEFA is introducing sensible and achievable measures in order restore the competitive balance.

In September 2009, Financial Control Panel of UEFA, agreed about the UEFA's Financial Fair Play Regulations which intended to prevent professional football clubs to spend more than they actually earn so as not to get into financial problems which could threaten their long term survival. Even if the term Fair play appears to be funny its crucial aspect is the idea of equal opportunities (Lenk and Pilz, 1989), which nowadays is difficult to be fulfilled by European football clubs.

[8] Source: Deloitte (2011).

UEFA Executive Committee approved the formation of the two-chamber Club Financial Control Body (CFCB) in June 2012 which replaced the Club Financial Control Panel in order to oversee the application of the UEFA Club Licensing System and Financial Fair Play Regulations. The Club Financial Control Panel, which had monitored clubs since the first introduction of the regulations in May 2010, with the main evolution being that the CFCB is an UEFA Organ for the Administration of Justice. It is also competent to impose disciplinary measures in case that football clubs does not fulfill the requirements, and to decide on cases relating to clubs' eligibility for UEFA club competitions.

UEFA, through the Financial Fair Play Regulations, obligates the football clubs to balance their book or break even over a period of time. According to the "breakeven requirement" the "relevant expenses" should not exceed the club's "relevant revenue". We should note that UEFA's notion of "relevant income" does not include income from non football operations. Externally acquired money from the club's patrons, is not considered as income and cannot be used to finance a club's expenditures unless it is used for youth development activities or infrastructure. The Financial Fair Play measures involve a multi-year assessment, enabling a longer-term view to be formed and within the wider context of European football. They reach beyond the existing UEFA club licensing system criteria that are primarily designed to enable an assessment of a club's financial situation in the short term, and is primarily administered by the governing bodies in each UEFA national association.

According to the Financial Fair Play Regulation the "break-even requirement" is assessed by UEFA for a three-year period according to Article 59 (UEFA 2010a). For example, for the license season 2014/15 the monitoring period to be assessed includes the three previous seasons 2013/14, 2012/13 and 2011/12. The new regulations came into effect in January 2012 (UEFA 2011a). The first season that UEFA will start monitoring clubs is 2013/14 (it is the only year that UEFA will be based only on information of the two preceding years, namely 2011/12 and 2012/13). Should be mentioned that, the break-even rule have to be fulfilled every year for a moving average over three years. The restriction of the moving average ensures that, although there is a continuous limit, club's managers can make adjustments over these three years.

According to Article 61, there is an acceptable deviation of 5 million Euros from the breakeven point. This deviation is allowed to be up to 45 million Euros in the license seasons

2013/14 and 2014/15. This amount will be reduced to 30 million Euros for the license seasons 2015/16, 2016/17 and 2017/18, and will be reduced further thereafter. According to the Financial Fair Play Regulations, wealthy owners will be allowed to absorb the aggregate losses of 45 or 30 million Euros by making equity contributions not just by lending money to the clubs. This exception allows clubs that are financed by private investors to change their management policy. The Financial Fair Play Regulations is expected to prevent wealthy club owners who make cash gifts to their club from gaining an advantage over other clubs which cannot afford this kind of gifts. Also, sanctions are taken against those clubs who do not spend within a budgetary framework. Among the penalties for the clubs that not comply with the Financial Fair Play Regulations we could mention the disqualification from European competitions, fines, the withholding of prize money and transfer bans.

Michel Platini, the President of UEFA when he announced the new legislation said:

''Fifty per cent of clubs are losing money and this is an increasing trend. We needed to stop this downward spiral. They have spent more than they have earned in the past and haven't paid their debts. We don't want to kill or hurt the clubs; on the contrary, we want to help them in the market. The teams who play in our tournaments have unanimously agreed to our principles…living within your means is the basis of accounting but it hasn't been the basis of football for years now. The owners are asking for rules because they can't implement them themselves - many of them have had it with shoveling money into clubs and the more money you put into clubs, the harder it is to sell at a profit.''

The main objectives of the Financial Fair Play Regulations according to UEFA 2010b were:

I. to introduce more discipline and rationality in club football finances,

II. to decrease pressure on salaries and transfer fees and limit inflationary effect,

III. to encourage clubs to compete with(in) their revenues,

IV. to encourage long-term investments in the youth sector and infrastructure,

V. to protect the long-term viability of European club football,

VI. to ensure clubs settle their liabilities on a timely basis.

We could summarize the main objectives of the Financial Fair Play Regulations in the following two principal goals:

1. Protecting the long-term financial stability of European club football;

2. Restoring the competitive balance between clubs and leagues.

The effect of the adaption of the Financial Play Regulations will be permanent affecting the competition between football clubs and leagues. It is believed that although the short term transition will be difficult for the clubs the football finally will benefit in the long term (especially the competition between football clubs). There are clubs, though, that will be affected more than others from the implementation of the new regulations. These clubs used to be financed primarily through donors by their patrons. On the other hand, the new regulations will be implemented easer in national champions that have tighter regulations (for example the German championship) gaining, in this way, competitiveness against less regulated leagues (like the English or Spanish championship). Should be mentioned that, the FFP will also affect the competition between clubs on the national league because the will be less contestable due to the restriction of the getting external money.

There are advantages and disadvantages in the implementation of the Financial Fair Play Regulations as Henning Vopel (2011) suggest in his report. According to the author before the application of new rules authorities should investigate whether it is:

- ✓ effective with respect to the objectives of regulation
- ✓ not contradictory with respect to different objectives of regulation
- ✓ efficient regarding costs of implementing, monitoring and enforcing regulation
- ✓ dynamically efficient by offering incentives for long-term improvement
- ✓ competitively neutral unless otherwise intended by the regulation itself
- ✓ of reasonable means regarding costs and benefits of regulation.

As we mentioned above, the main criteria of the Financial Fair Play Regulations is the breakeven point that clubs should comply with in order to get the license. As we also mentioned the major objective of the implementation of the Financial Fair Play Regulations is to restore the competition between clubs and maintain long-term financial stability of the football clubs in

Europe. The most important question arising is whether the breakeven point is efficient regarding these two main objectives. Undoubtedly, it helps in maintaining log-term financial stability because it puts a limit in the losses that clubs can report. But, as far as the restoring competition between clubs is concerned, there are objections claiming that the clubs that cannot have access to external money will face high level of debt which as a result will make these clubs suffer a competitive disadvantage. On the other hand, Henning Vopel (2011) supports that the long-term competitive equilibrium in the European football is determined by the size of the revenue that a club could generate rather than on occasional investors. The size of the revenue unavoidably depends on the size of the domestic market of the club (population size and income per capita). Thus, football clubs of developed countries will continue to have a competitive advantage against those of less-developed one.

Additionally, one of the most important problems that European football faces, as we mentioned, is the fact that there are "Untouchables'' clubs which tend to transfer the leagues into monopolies. These clubs have high revenue due to their initial success which, as a consequence, strengthens more these clubs leading to another success. In football it is believed that 'money score' which means that football clubs who have money have the opportunity to acquire the best players, coaches and managers, making success much more likely. It could be easily understood that European football needs a redistribution of income in order to avoid the dominance of a few football clubs which violate the foundation of sport. The breakeven point does not really help in improving this situation. Thus, the UEFA should adopt a mechanism which will solve this problem.

Moreover, the adaption of the Financial Fair Play Regulation will increase the cost of implementing for the clubs and monitoring for the authorities. There are clubs that will try to report income of non-football operation as relevant income. Furthermore, it is believed that the implementation of the new regulation will increase earnings manipulation by the managers of the clubs. Thus, the cost of detecting such behavior will obviously be higher than before the implementation of the Financial Fair Play Regulations when managers of the clubs had no incentives to manipulate their earnings.

To sum up, the UEFA implemented the Financial Fair Play Regulations in order to restore competition in the European football as well as to maintain a long-term financial stability of

these clubs. The UEFA intent to achieve that through the introduction of the breakeven point according to which clubs are allowed to report certain amount of losses during a three year period. If they fail to comply with this regulation they will not participate in the UEFA's championship. It appears, though, that the new regulation have advantages and disadvantages. On the one hand, they indeed enhance the long-term financial stability of the clubs through imposing a ceiling on deficits but on the other hand it appears to be inefficient in rebalancing competition. Furthermore it fails to solve the problem of the monopolies that European football faces. And finally, it seems to be costly for the clubs to apply the new regulation and for the authorities to detect earnings manipulation.

Chapter 4: Research hypothesis

In this part of the paper we will proceed with the examination of the main research hypothesis which is whether the implementation of the Financial Fair Play Regulations increases earnings management. We also control for other variables that appears to affect earnings management based on previous literature review. These control variables are firm's size, leverage, growth, cash flow and whether it is a listed firm or not.

4.1 Size

Firm size affects earnings management as Becker (1998) has noticed. Two opposing views exist on the role of firm size in earnings management as discussed below. The larger the firm size, the less earnings management may be feasible as Burgstahler and Dichev (1997) refer to their research. The main idea behind this view is the fact that the size of a firm is related to its internal control system. That means that large-sized firms appears to have more sophisticated internal control systems as compared to small-sized firms reducing in this way the likelihood of manipulating earnings by management. Furthermore, large-sized firms are usually audited by auditors from big 4 accounting firms. This audit firms have more experienced auditors who could help prevent earnings misrepresentation. To be more specific, Becker (1998), Francis (1999), and Payne and Robb (2000) claimed that the firms audited by big 4 audit firms appears to report lower levels of discretionary accruals even though they have high level of accruals. It is also believed that large-sized firms take into account the reputation costs when engaging in earnings management. These firms have better control over their operations appreciations and understanding of their businesses relative to small-sized firms. Moreover, large firms have established their credibility in business community and hence, the cost of engaging in earnings management will be higher for them. As a consequence, their concern about reputation prevents these firms from manipulating earnings. And finally, large firms are followed by more financial analyst and that may be the reason why they avoid involving in earnings management.

On the other hand, there is an opposing view suggesting that large-sized firms are more likely to manage earnings than small-sized firms. As Barton and Simko (2002) indicated, the reason behind this is the fact that large firms face more pressures to meet the analysts' expectations. In

the same line is the research of Myers and Skinner (2000) who found empirical evidence that large firms do not report accurate earnings after studying their earnings growth for at least 14 quarters. Moreover, large firms seem to have greater bargaining power with auditors. As Nelson (2002) documented, auditors are more likely to waive earnings management attempts by large clients. Also, large firms appear to have more room to maneuver given wide range of accounting treatments available for example they have greater current assets, i.e. better ability, to do earnings management than small firms. Finally, large-sized firms may manage earnings to decrease political costs. In all, the incentives and abilities to manage earnings may vary among firms of different sizes.

Kim, Liu and Rhee (2003) find that small firms engage more in earnings management than large- or medium-sized firms to avoid reporting losses. On the other hand, large- and medium-sized firms exhibit more aggressive earnings management to avoid reporting earnings decreases than small-sized firms. A reasonable explanation for that they mentioned that may be the fact that it is easier for large firms to report positive earnings than positive change in earnings, while small firms may not have the same capacity as large firms in reporting positive earnings.

In this research we control for size using the natural logarithm of total assets and we expect a negative association between earnings management and firm size.

4.2 Leverage

Highly leveraged companies may be at risk of bankruptcy or be unable to find new lenders in the future if they are unable to make payments on their external debt financing. It seems to be a positive/negative association between earnings management and leveraged firms. Positive association can be justified as follows: if a firm is highly leveraged, managers have to meet the expectations of investors/lenders and consequently engage in income increasing accruals. According to the research of Van Tendeloo and Vanstraelen (2005) firms with high leverage ratio engage more in upward earnings management because they want to avoid debt covenant violations. In the same line is also the research of Billings (1999). On the contrary, leverage seems to increases the control of opportunistic behavior of managers. This is due to the fact that highly leveraged firms use huge amount of free cash flows in order to repay their loans. As a result, managers are left with less free cash flows and they do not invest in value decreasing

projects due to the lack of free cash. This fact leads managers to depend upon earnings management to hide their poor performance.

Have been many studies trying to identify the type of correlation between earnings management and leverage. Jelinek (2007) studies the effect of leverage increase on accrual-based earnings management. Jelinek suggests that leverage levels have a different impact on earnings management and concludes that increased leverage is associated with reduced accrual-based earnings management. Wasimullah, Toor and Abbas (2010) in their paper compared the impact of leverage on earnings management in control as well as leverage increasing firms. They found out that as leverage increases firm's earnings management reduces and thus supports negative relationship between earnings management and firm leverage. On the other hand, there are findings that are not consistent with the idea of negative relationship of earnings management and firms leverage. They support that firms engage in earnings management to avoid debt covenant default. Beatty and Weber (2003), DeFond and Jiambalvo (1994), Dichev and Skinner (2002) and Sweeney (1994) mentioned that the debt repayments of the loan that companies has granted decrease the amount of cash available to managers for investing in non-value increasing projects. This has been also documented by Jensen (1986), Maloney et al (1993) and Stulz (1990).

To be consistent with previously studies we have used the ratio of long term debt to the total of book value of equity as measure of leverage in this paper. The same measure had been used by Hayn et al (1992), Nwaeze (2005) and Jelinek (2007). This book value of debt has the capacity to better explain the indebtness of firm as market value of debt may be inflated due to share prices. We expect a positive association between earnings management and leverage.

4.3 Growth

Prior empirical studies associate earnings management with expected future growth. It is believed that discretionary accruals estimated from Jones models are correlated with performance and expected future earnings growth. Lee, Li, and Yu (2006) at their study supported that higher growth firms are involving more in earnings management. At the same line are the studies of Gaver and Gaver (1993), Ittner, Lambert, and Larcker (2002), Iyengar, Land, and Zampelli (2010), Abarbanell and Lehavy (2003), and Clinch (1991), who claimed that the

higher the firm's growth opportunities is, the stronger the incentives it has to meet the analysts' forecasts mitigating sometimes in earnings management in order to do so.

Dechow, Sloan and Sweeney (1995) and Kasznik (1999) document that discretionary accruals estimated from the Jones model are positively related to return of assets. McNichols (2000) further shows that discretionary accruals from both the Jones model and the modified Jones model are positively related with earnings growth. Lee, Yue and Yue (2005) also support that firms with higher performance or expected earnings growth over-report earnings by a larger amount. One possible explanation for the above phenomenon seems to be the fact that Jones models are mis-specified in identifying non-discretionary accruals caused by performance increase or sales growth. Following researchers try to mitigate the misspecification concern by adding more controls such as the company's cash flows.

Sales growth may affect the propensities of firms to manage earnings. High sales growth usually improves the bottom line in income statement that is controlled by the variable, earnings performance in previous years, so the firms with high sales growth may not necessarily manipulate earnings to report positive earnings or change in earnings. Given the earnings performance, however, the high-growth firms would aggressively recognize revenues in order to maintain the growth trend, particularly with a series of consecutive increases in sales. Myers and Skinner (2000) observe, for example, that their sample firms have higher sales growth rates than the firms in the control group. So it becomes necessary to control for sales growth to isolate the relation between firm size and earnings management.

In this study, observations are divided into three groups based on the sales growth rate, calculated as current period sales minus last period sales divided by last period sales. Two dummy variables representing for medium- and high-growth rates are included in the model while the low-growth group serves as the base group. Consequently, we predict football clubs with increased growth prospects to manipulate accounting numbers more frequently and so the GR coefficient is expected to be positive.

4.4 Cash flows

As we already mentioned above, firm's manager engage in earnings management.[9] One way managers can manage earnings is by manipulating accruals (pure accrual manipulation) which has not direct consequences to cash flows. Because pure accrual manipulation has no direct implication to cash flows and can be done after the end of the year when the managers are better informed about pre managed earnings, this is a very convenient form of earnings management. Examples of pure earnings manipulation include the under provision for bad debt expenses, opportunistic selection of accounting methods and delaying of asset write-offs. Real activity manipulation affects both cash flows and accruals.

Managers have incentives to use methods other than pure accruals manipulation to manage earnings which is related with the timing of earnings management. In contrast to pure accrual management, any other manipulation of real activities has to occur during the course of the year. In order to avoid reporting losses, the first option is to wait until the end of the year to use pure accruals manipulation to cover the shortfall between pre-managed earnings and zero. But, this strategy entails the risk that the realized shortfall at year-end is larger than the discretionary accruals that can be reported with pure accruals manipulation. The result will be to report earnings below zero. Managers can reduce this risk by manipulating real activities during the year by increasing reported earnings.

Prior studies provide strong evidence on the existence of real earnings management (RM). Graham (2004) reported that 78% of the executives interviewed indicated a willingness to sacrifice economic value to manage financial reporting perceptions. By definition, real earnings management impacts negatively future firm performance because managers are willing to sacrifice future cash flows for current period income. However, the extent to which various real earnings management impacts future operating performance has not been discussed in prior literature.

Sugata Roychowdhury (2003) detected abnormally low CFO for companies that report small positive profits at the annual level. The evidence is consistent with firms which increase reported earnings beyond zero by giving price discount to temporally boost sales and overproduction.

[9] Healy (1985), Guidry, Leone and Rock (1999), Defond and Jiambalvo (1994), Teo, Welch and Wong (1998) and Kaznik (1999).

Operating cash flow and earnings Operating cash flow, (OCFi,t/TAi,t−1), is likely to be negatively related to income-boosting. One reason is that changes in credit terms, if any, convert cash income into accruals or vice versa; a second reason is management's desire to smooth out other variations in cash earnings. We further include earnings before taxes (Earni,t/TAi,t−1), scaled by lagged total assets, to control for potential misspecification that may occur in tests of earnings management for firms with extreme financial performance (Dechow, 1995).

4.5 Listed

Unlisted companies differ from listed companies in a variety of ways. First of all, unlisted firms, externally operate without attracting institutional interest, scrutiny from regulators and the attention of media. Secondly, they concentrate more in cash flows than in reported earnings. The firm's boards of directors often have a real financial interest in the business and they have minimal concerns about the current shareholder's value of the enterprise (Gottesman, 2003). On the other hand, listed companies, have to be very careful about their outside image as they want to attract institutional interest and the attention of media. External monitoring by the stakeholders such institutional investors and block-holders reduce the ability of the managers to opportunistically manage earnings. Highly sophisticated investors (like institutional or block-holders) have the resources, ability, and opportunity to influence managers of a firm (Monks and Minow, 1995). They acquire the power to do this even as e functions of the size as individual or collective shareholdings (Chung, 2002). As a result there is less opportunity for accruals management or earnings manipulation (Yeo, 2002; De Bos and Donker, 2004). This will be especially the case when the incentives for earnings manipulation of the managers are known by the major stakeholders. On the contrary, if there are no incentives for the managers to use discretionary accruals then stakeholders will monitor less the discretionary accounting choices (Chung, 2002).

Furthermore, all publicly listed companies within the European Union are obliged to prepare their consolidated financial statements in accordance with International Financial Reporting Standards since 2005. The main goal of International Financial Reporting Standards is to improve transparency and provide international comparability of the financial statements of companies that apply them as mentioned by the study of Heemskerk and Van der Tas (2006). This would lead to the expectation that the implementation of International Financial Reporting

Standards in financial statements would decrease the possibility for earnings management because of the strict criteria that International Financial Reporting Standards has and the fact that there is very little room to deviate from these criteria. In the same line are the findings from the research by Barth, Landsman and Lang (2008). They state that the accounting quality of firms applying that International Financial Reporting Standards generally improves after the adoption period. They mentioned though, that it is not sure whether these findings are attributable to the change in the financial reporting system or to the changes in firms' incentives and economic environment.

On the other hand, it is believed that the majority of listed companies consider the rationed share acquisition as the best channels for raising funds after they become public. However, it needs strict qualifications to attain the rationed share acquisition. Jiang Yihong (1999), Chen Xiaoyue, Xiao Xin, and Guo Xiaoyan (2000) and Pistor and Xu (2005) made empirical studies on Chinese companies, which concludes that the authorities of listed companies obviously make earnings management to attain the qualifications needed. It seems like listed firms have strong incentives to manage earnings in order to meet certain return on equity (ROE) thresholds. Chen and Yuan (2004) also find that Chinese listed firms manage earnings to satisfy the ROE requirements for rights issues, and argue that such earnings management behavior associates with mis-allocation of capital resources.

Yihong (1998) at his study claimed that when the listed companies expect that either the EPS will be less than zero or the return on equity (ROE) will be less than 10 percent, then these companies have drastic motives to manipulate profits in order to make the EPS slightly larger than zero or make the ROE slightly larger than 10 percent.

Another reason for earnings management seems to be the fact that in order to avoid being delisted, the listed companies manipulate their earnings at the level that earnings are expected to be. Jiang Yihong (1999) and Lu Jianqiao (1999) carry out profound research on the problem whether the listed companies take the earnings management to avoid it. In the above mentioned paper, Jiang Yihong demonstrates that the listed companies whose EPS are slightly higher than the critical point of profits and loss do have the behavior of earnings management.

4.6 Implementation of Financial Fair Play Regulations

The introduction of the Financial Fair Play Regulations has not received much attention in the academic literature, although it is a very important issue. There are few exception to this rule among which we could mention the research of Madden (2011), Vopel (2011), Drut and Raballand (2012) and Franck and Lang (2012). The study of Madden (2011) analyzes the consequences of the implementation of the Financial Fair Play Regulations according to the economic model of a sports league. He provides evidence to the assumption that the new regulations will have a negative impact on the supply of talent. He supports that the 'missing' money from the donors of the patrons will lead to a reduction in all team qualities which consequently will lead to fan disappointment, fall in owner's utilities as well as decrease in player's wages. Furthermore, Vopel (2011) at his research supports that the implementation of the Financial Fair Play Regulations could be inefficient in rebalancing completion. He claimed that a tighter regulation could lead to the protection of the well-established clubs from being challenged by non-established one. He also finds that the implementation cost for the clubs and the monitoring costs for the authorities to be high. Moreover, Drut and Raballand (2012) investigate the impact of the level of deficit that clubs are allowed to have on their performance on the field. They support that clubs that have deficits acquire better players, coaches and managers as a result they have better sportive results compared to clubs that have a more strict budget (as Financial Fair Play Regulations impose). Finally, Franck and Lang (2012) on their study developed a theoretical model in order to study the adverse incentive effects produced by the money injections. They claimed that the successful implementation of the Financial Fair Play Regulations will abrogate the mechanisms that allowed the external money injections on the football clubs. As a result, the clubs will choose a less risky investment strategy because it appears that the existence of external money injection induces the football clubs to choose a more risky strategy. Furthermore, they argue that a private money injection bails out the club less often than a public money injection. Moreover, their model shows that a 'too-big-to-fail' phenomenon exists because it is better to save a club if its market size is large. The also derive conditions under which the Financial Fair Play Regulations and the pre-Financial Fair Play Regulations, respectively, are desirable from a welfare perspective.

All these studies investigate the implication of Financial Fair Play Regulations on different area. There is no research, at the best of our knowledge, which investigates the impact of the implementation of the Financial Fair Play Regulations on earnings management. As we mentioned, the first season that UEFA will start monitoring clubs is the season 2013/14. In order to provide the license the authority will be based on information of the two preceding years, namely 2011/12 and 2012/13. The break-even rule has to be fulfilled every year for a moving average over the tow previous years. It is expected that UEFA's Financial Fair Play Regulations will extrude managers to increase earnings manipulation of football clubs in order to comply with these rules. Although, the implementation period starts during 2011-2012 we expect that football clubs will start manipulating their earnings even during 2010-2011 in order to smooth the transition.

H1: The implementation of FFP Regulations during 2011 is positively associated with the level of earnings management

Chapter 5: Date selection procedure and research design

5.1 Introduction

This chapter describes the data selection procedure followed, the design steps and analysis of the model used. In the first section we describe the sources by which the necessary data used in our research were collected, while in the second section we set of the purpose of the research.

5.2 Data selection Procedure

The research sample includes 84 Football Clubs from 14 countries, namely Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Spain, Ukraine, United Kingdom, Norway and Poland for the period 2009-2011. Our initial sample included 88 football clubs but we removed those clubs which do not had the accounting information needed for our research, thus limiting the final number to 84 football clubs. The main criterion that the selected football flubs had to fulfill was to have included in their annual reports full financial data and to close their fiscal year in June. All the clubs had in their financial statement data regarding Club's fixed assets, total assets, shareholders funds, total liabilities, operating revenue, operating P/L, net income and cash flow.

The research sample is restricted only to football clubs that participate in the elite division of each country's official championship. The reason why we choose only those that participate in the elite division is because they attract greater publicity, their financial statements provide more reliability as they are audited by certified chartered accountants and we wanted to mitigate any biases arising from the relegation of football clubs to lower divisions. Also, clubs that participate in the elite division are highly capitalized and are in the forefront of the national championships. They are the only contestants for participation in the UEFA championships and thus are the only clubs with intense scrutiny by the local and European regulators. Their frequent participation in the UEFA competitions make them more attractive as they attract the interest of the public, fans, investor, regulators and other stakeholders. All the data were collected from Amadeus database which had the financial statements of football clubs and no further trimming was conducted as we did not wanted to lose any observation which would lead to a biased final outcome.

5.3 Research Design

The selection of the variables used in our research, was based on previous research which have been shown to be significant determinants of the accounting quality and the fact that we wanted to capture the differences in the incentives of earnings management. The first variable that we controlled is the size of football clubs which is measured as the natural logarithm of total assets at the end of the fiscal year. As previous researches have shown, the larger companies are, the less they tend to manage their earnings mainly because of the regulatory scrutiny that large and profitable firms face. For this reason, we expect a negative relation between the size (LnTA) of football clubs and the tendency to report positive earnings.

Also we controlled the impact of football clubs leverage in earnings management incentives. We measured the leverage (LEV) as the ratio of year-end total liabilities to year-end total common equity. According to Billings (1999) and Van Tendeloo and Vanstraelen (2005), firms with high leverage ratio engage more in upward earnings management because they want to avoid debt covenant violations. Another recent research[10], showed that managers may avoid reporting losses because they want to increase the ability of servicing the existing debt through new debt financing. For example, European football clubs[11], which are willing to lose in order to enhance the on field performance. Therefore, we expect that leverage will not only be positively related with earnings management but also with the tendency of reporting small positive income.

Another variable that we controlled is the growth of football clubs (GR) which is measured as the percentage change of the company's sales from year t-1 to t. According to the study in 2006 by Lee, Li and Yu, firms that have high growth tend to manipulate more their earnings than low growth firms. Also, the argument[12] that high growth firms have more incentives to manipulate earnings in order to meet the analysts' forecast was verified by many studies[13]. Thus, we expect that high growth football clubs to manipulate more the firm's earnings leading to a positive GR coefficient.

[10] Iqbal and Strong (2010)
[11] Garcia-del-Barrio and Szymanski (2009).
[12] Abarbanell and Lehavy (2003).
[13] Clinch (1991), Gaver and Gaver (1993), Ittner, Lambert and Larcker (2002) and Iyengar, Land and Zampelli (2010).

The fourth variable that we included in our research is the ratio of cash flows deflated by lagged total assets. Two recent researches have been made regarding the importance of cash flows. Dimitropoulos and Asteriou (2009) found that cash flows provide notable information about the quality of accounting information which every firm publish. Iqbal and Strong (2010) suggested that firms that have increased cash flows have fewer incentives to manipulate accounting numbers through accruals than firms with decreasing cash flows. Thus, we expect that the variable of cash flows to have a negative coefficient.

We also wanted to investigate if the listed companies that mandatorily implement International Financial Reporting Standards are negatively or not correlated with earnings management. Prior research of Barth (2008) found that companies which voluntary adopted International Financial Reporting Standards decreased earnings management. There are also studies who investigate the usefulness of International Financial Reporting Standards adoption, Jeanjean and Stolowy (2008), Callao and Jarne (2010), Hoque (2012) concluding that countries which adopt International Financial Reporting Standards have lower earnings management. As we mentioned, the adaption of International Financial Reporting Standards is mandatory for the listed companies. As a result, we expect listed clubs that report under International Financial Reporting Standards to have lower earnings manipulation. Furthermore, it seems that listed companies have to be very careful about signals they give to the investors avoiding as a result to involve in earnings management. Thus, we expect listed football clubs that have adopted International Financial Reporting Standards to have better earnings quality.

Moreover, we included the V-Year variable in order to see if football clubs are manipulating earnings after the implementation of UEFA's Financial Fair Play Regulations. V-Year is a dummy variable that receives '1' if year is 2011 and '0' otherwise. As we mentioned above, the Financial Fair Play Regulations will start implicating from the 2013-14 season. Thus, football clubs should have in mind the rules and start complying with those starting from 2011-12 season because the 2011-12 and 2012-13 seasons are used to determine a club's license application in the 2013-14 season. But we expect that football clubs will start manipulating their earnings even during 2010-2011 in order to smooth the transition from the huge losses that they reported all these years to the proper earnings/losses that UEFA require them to report.

In this part of our study, we include the estimation of two measures of earnings management. The first measure is income smoothing which is the most common practice of earnings management. Income smoothing refers to the process of using accounting policies and processes in order to eliminate changes in the firm's earnings between periods. This is mostly used by company's managers that want to appear more lucrative to potential risk aversion investors. According to Barth, Landsman, and Lang (2008), investors believe that profits are more reliable when their expected level is closer to their actual level. This reliability is decreased when there is a large deviation of the expected level from the actual level. As a result, firms managers are motivated to change (reduce) the variance of the firm's profit stream so as to mitigate the perceived firm risk. In this study, will be implemented a commonly used measure of income smoothing, Spearman correlation, between accruals and cash flow of football clubs for every given year. Our next step was to adopt the methodology proposed by Barth, Landsman, and Lang (2008) in order to capture any confounding effects of factors that are not attributable to the financial reporting setting. According to this methodology, we compared the correlations of the accruals' and of the cash flows' residuals from the below regression models, instead of comparing the correlations of accruals and cash flows directly.

CF and ACCRUALS residuals are estimated form the following models:

$$CF_{it} = a_0 + a_1 SIZE_{it} + a_2 GR_{it} + a_3 LEV_{it} + a_4 DLIST_{it} + e_{it} \quad (1)$$

$$ACC_{it} = a_0 + a_1 SIZE_{it} + a_2 GR_{it} + a_3 LEV_{it} + a_4 DLIST_{it} + e_{it} \quad (2)$$

Where:

- CF_{it} is the annual operating cash flow divided by lagged total assets.
- ACC_{it} is the total accruals measured as the difference between net income and cash flow divided by lagged total assets.
- $SIZE_{it}$ is the natural logarithm of end year total assets.
- GR_{it} is the percentage change in operating revenue.
- LEV_{it} is the ratio of end year total liabilities to end of year total common equity.
- DLIST is a dummy receiving (1) for publicly listed football clubs and (0) otherwise.

Barth, Landsman and Lang (2008), found a more negative correlation between accruals and cash flows as earnings smoothing due to the fact that managers will increase accruals in the case of poor cash flow outcomes. This means that they will increase net income since accruals are the difference between net income and cash flows.

The detection of earnings management is a topic of considerable interest and importance to a variety of interested groups including investors, auditors and regulators[14]. Despite the fact that academic research has addressed possible causes and consequences of earnings management, the measurement of earnings management continues to focus on the model of expected accruals first identified by Jones (1991). Accruals in accounting refer to the account on the balance sheet that represent liabilities and non cash based assets including accounts payable, accounts receivable, goodwill, deferred tax liability and future interest expenses. In other words, accruals include all the revenues and expenses that have incurred but are not paid or received. Accruals are estimated as the difference between net income and operating cash flows. Accruals are categorized into normal accruals and discretionary accruals. The normal component reflects business conditions that naturally create and destroy accruals, while the discretionary component identifies management choices where managers choose by themselves the level of manipulation. Examples of discretionary accruals are the disclosure of amortization expenses and depreciation prior to initial public offering and disclosing increased provisions for deferred taxation.

In our research, we will use the cross sectional model of Jones (1991) which was modified by Kothari, Leone and Wasley (2005) so as to extract the discretionary accruals following a performance matching approach. The following Ordinary Least Squares (OLS) equation of discretionary accruals is a function of changes in sales, the level of property plant and equipment and the level of the return on assets:

$$ACC_{it}/Ta_{t-1} = \alpha_{0} + \alpha(1/TA_{t-1}) + \beta(\Delta Sales_{it}/TA_{t-1}) + \gamma(PPE_{it}/TA_{t-1}) + gROA_{it} + e_{it} \qquad (3a)$$

[14] Fields et al (2001)

Where:

- ACC is the total accrual measured as the difference between net income and operating cash flows divided by lagged total assets.
- ΔSales is the change in net sales deflated by lagged total assets.
- PPE is the level of property plant and equipment for each year deflated by lagged total assets.
- ROA is the return on equity at the end of the fiscal year.
- TA is the total asset of the firm at the end of the fiscal year.

The Jones model (1991) included a constant term which according to Kothari, Leone and Wasley (2005), provides an additional control for heteroskedasticity that was not improved by deflating all the variables with firm's total assets. They argued that the constant term mitigates problems which can arise from the omitted size variable producing a more symmetric discretionary accrual measure. This measure makes the power of test comparisons more clear and overcomes misspecifications of the model. Also Jones (1991) included the return on assets (ROA) which increases the effectiveness of the performance matching methodology. The below equation shows the residuals estimated by the modified model of Jones (1991):

$$DAC_{it} = ACC_{it}/TA_{it-1} - \hat{a}\,(1/TA_{it-1}) + (\Delta Sales_{it}/TA_{it-1}) + (PPE_{it}/TA_{it-1}) + \quad ROA \qquad (3b)$$

According to Bowen, Rajgopal, and Venkatachalam (2003), Klein (2002), Reynolds and Francis (2000), Wang (2006) and Warfield, Wild, and Wild (1995) it is most appropriate to use absolute values of discretionary accruals because manager can use income increasing or decreasing accruals in order to achieve their earnings targets. The higher the absolute value of the discretionary accruals the greater the level of earning manipulation that the company is involved in. The model that we use in order to test the research hypothesis is:

$$|DACC_{it}| = a_0 + a_1 \text{Year dummies} + a_2 DLIST_{it} + a_3 VyearDLIST_{it} + a_4 SIZE_{it} + a_5 LEV_{it} + a_6 Cfta + a_7 GR_{it} + b\text{Country dummies} + e_{it} \qquad (4)$$

Where,

- |DACC it| is the dependent variable of the absolute discretionary accruals.
- SIZEit is the natural logarithm of end year total assets.
- GRit is the percentage change in operating revenue.
- LEVit is the ratio of end year total liabilities to end of year total common equity.
- DLIST is a dummy receiving (1) for publicly listed football clubs and (0) otherwise.
- Cfta is the ratio of cash flows deflated by lagged total assets.
- VyearDLIST is the combination of the year dummies and DLIST.

Based on our research hypotheses we expected coefficients a1, a5, and a7 to have positive signs, while coefficients a2, a3, a4 and a6 are expected to be negative. In the equation are included country dummies in order to control for any unobservable country-specific effects and year dummies to capture time specific effects and also to deal with the problem of heteroskedasticity in the error term.

Chapter 6: Data Analysis and Empirical Results

6.1 Introduction

The first sub-chapter is dedicated to descriptive statistics and correlation of the data used in this study. We, then, proceed with empirical results based on regression analysis using discretionary accruals and Spearman correlation coefficients between accruals and cash flows residuals.

6.2 Descriptive statistics and correlation

The table below (Table 1) presents the Pearson correlation coefficients of sample variables for the period under investigation (2009-2011). The absolute value of discretionary accruals is negatively correlated with the size of the football clubs (-0.224), according to which the larger the size of companies is, the lower the levels of accruals and enhanced earnings management that the company engaged in, verifying the argument of Burgstahler and Dichev (1997) who support that the larger the firm size, the less earnings management may be feasible.

	|DACC|	SIZE	LEV	GROWTH	DLIST	CFTA	VYEAR
|DACC|	1	**-0.224**	-0.002	0.012	**-0.142**	0.028	-0.018
SIZE		1	-0.055	0.013	**0.0372**	**0.142**	0.004
LEV			1	-0.012	-0.050	0.024	0.105
GROWTH				1	-0.018	0.004	-0.045
DLIST					1	0.021	0.000
CFTA						1	0.078
VYEAR							1

***Table 1**: Pearson correlation coefficients of sample variables (2009-2011)*

Notes: All the coefficients in bold indicate statistical significance at the 5% or 10% level (two-tailed test). The sample includes data from 84 football clubs from 14 countries during the period 2009-2011. |DACC| is the absolute value of discretionary accruals estimated from the Jones (1991) model as modified by Kothari et al. (2005), SIZE is the natural logarithm of total assets at the end of the fiscal year, LEV is the ratio of total debt to common equity, GR is the annual percentage change in sales, DLIST is a dummy receiving (1) for publicly listed football clubs and (0) otherwise, CFTA is the ratio of cash flows to lagged total assets, and VYEAR is a dummy variable receiving '1' if year is 2011 and '0' otherwise.

Discretionary accruals are also negatively correlated with the variable of DLIST (-0.142) indicating the negative association between listed firms that apply International Financial Reporting Standards and accruals, as we expected. It is believed that listed companies should be careful about the message they send to the public. Market pressure force listed clubs to report their true economic situation. Investors through the continuous monitoring of the financial performance of the corporation influence managers to reduce earnings management (Monks and Minow, 1995). Furthermore, football clubs that have adopted IFRS usually tend to avoid earnings management because of the strict criteria that International Financial Reporting Standards have and the fact that there is very little room to deviate from these criteria as Barth, Landsman and Lang (2008) supported in their research. Also, football club's size is positively correlated with DLIST variable (0.0372). This positive relationship indicates that large companies are more possible to be listed. The additional cost that a club should bear in order to be listed could be a possible explanation for this, indicating that small-size clubs cannot afford being listed. On the other hand, that also means that large size football clubs appears to have more sophisticated system in adopting new standards like IFRS as compared to small-sized. As a result, these clubs have better comparability and transparency which could lead to lower earnings management (as mentioned above the larger a club is the lower its earnings manipulation). Finally, the ratio of cash flows to lagged total assets is positively correlated with the football club's size (0.142) meaning that the larger the club is, the higher the available cash it has. Iqbal and Strong (2010) suggested that firms that have increased cash flows have fewer incentives to manipulate accounts that support our initial claim that large firm (which has more available cash flows) involve less in earnings manipulation.

Table 2 presents the descriptive statistics of the sample variables for period 2009-2011. As we observe, the absolute value of discretionary accruals is almost 10% of the average total assets.

	Minimum	Maximum	Mean	Std. Deviation
|DACC|	0.00	0.82	0.0997	0.10306
SIZE	12.60	20.20	17.1721	1.69393
LEV	-68.46	454.34	8.1241	42.98747
GROWTH	-0.91	1.44E7	5.8252E4	9.15489E5
DLIST	0.00	1.00	0.0723	0.25949
CFTA	-54.73	9.33	-0.1675	3.58629
VYEAR	0.00	1.00	0.3333	0.47235

***Table 2**: Descriptive Statistics of sample variables (2009-2011)*

Notes: All the coefficients in bold indicate statistical significance at the 5% or 10% level (two-tailed test). The sample includes data from 84 football clubs from 14 countries during the period 2009-2011. |DACC| is the absolute value of discretionary accruals estimated from the Jones (1991) model as modified by Kothari et al. (2005), SIZE is the natural logarithm of total assets at the end of the fiscal year, LEV is the ratio of total debt to common equity, GR is the annual percentage change in sales, DLIST is a dummy receiving (1) for publicly listed football clubs and (0) otherwise, CFTA is the ratio of cash flows to lagged total assets, and VYEAR is a dummy variable receiving '1' if year is 2011 and '0' otherwise.

The football club's size is quite high. This could be explained by the fact that football clubs are large size firms, especially those that belong in the elite division. They are highly leveraged (this is one of the reasons why UEFA introduced the Financial Fair Play Regulation, as we have already mentioned), do not have enough growth opportunities and they tend to generate negative operating cash flows this is probably because of the fact that the debt repayments of the loan that clubs have granted decrease the amount of available cash (DeFond and Jiambalvo, 1994; Dichev and Skinner, 2002; Sweeney, 1994).

6.3 Empirical Results for Earnings Management

The table below represents the empirical findings from the equation 4. The model captures the possibility that football managers exercise discretion in order to avoid reporting losses. As shown, the relationship between the dependent variable and the independent variables is statistically significant (x^2= 341.21, $p<0.001$). Also, the association strength between the dependent and the independent variables (overall R^2) is 30.69%, indicating a medium efficient strong relationship. The results indicate that the implementation of Financial Fair Play Regulations is a mechanism which increases earnings management behavior. Specifically, during 2011 (the year that we expect football clubs to start manipulating their earnings due to the implementation of Financial Fair Play Regulations) managers of football clubs tend to manage the company's earnings more since the correlation coefficient is positive (0.0050962) and statistically significant. This verifies the argument of our main hypothesis which support that the implementation of Financial Fair Play Regulations, during 2011, is positively associated with the level of earnings management.

On the other hand, listed clubs are negatively correlated with earnings management (-0.0478303). As we see, the coefficient of the variable is negative and statistically significant at

1% significance level. There are studies supporting these results arguing that the sophisticated investors are less likely to be fooled by earnings management. They inhibit the listed firms' managers from using discretionary accounting accruals opportunistically (Chung, Firth and Kim, 2002). In contrast, when the club is unlisted then there is narrow separation between owners and managers. Consequently, managers face less pressure from financial markets. They do not have to worry about the signal the firm gives to the market paying in this way less consideration to the short-term financial report (Jensen, 1986) and (Klassen, 1997). Thus, highly managerial ownership clubs are more likely to involve in earnings management due to this lack of market discipline which may lead insiders to make accounting choices that reflect personal motives rather than firm economics (Sanchez-Ballesta and Garsa-Meca, 2007). Moreover, the implementation of IFRS reduces earnings manipulation. Jeanjean and Stolowy (2008), Callao and Jarne (2010), Hoque (2012) at their research support that companies which adopt International Financial Reporting Standards have lower earnings management. These findings are also consistent with aim of these regulators according to which the adoption of standards increases the comparability of financial statements, improves corporate transparency and increases the quality of financial reporting.

The growth rate (-9.93e-10) seems also to affect negatively the earnings management since its coefficient is negative and statistically significant (at 1% significance level). The results confirmed our initial expectation which was based on previous studies like the one of Lee, Li and Yu (2006) who supported that club's growth rate is positively associated with the level of earnings management. This negative relationship could be explained by the fact that clubs with high growth opportunities have no more incentives to manage their earnings because they may expect to achieve the UEFA's target (break-even point) through the increase of their revenue.

[DACC]	Coefficient	Significance
vyear	0.0050962	0.010*
Dlist	-0.0478303	0.001*
Vyeardlist	0 .0047171	0.158**
Size	-0.0145696	0.125**
Leverage	4.39e-06	0.965
Cfta	.001375	0.179
Growth	-9.93e-10	0.001*
X^2	*341.21*	*0.000**
Overall R^2	*30.69%*	
Country dummies Included	*Included*	

***Table 3**: Regression results on earnings management using discretionary accruals*
*Notes: *, ** indicate statistical significance at the 1% and 5% level respectively (p-value with two tailed test).*

Furthermore, size has negative coefficient (statistically significant at level 5%) meaning that the large-size clubs are less associated with earnings management in comparison to the small-size clubs. As we expected, club's size is negatively associated with the level of earnings management. One possible explanation for this fact is that large-size firms take more into account their reputation costs when engaging in earnings management in comparison to the small-size firm. The results are in the same line with the study of Burgstahler and Dichev (1997) in which they provide evidence to the idea that the larger the firm is the less it involves in earnings manipulation.

The ratio of cash flows divided by total asset and clubs leverage have positive coefficients meaning they influence positively the level of earnings management but are not statistically significant neither at 1% nor at 5% significance level.

Although the variable of vyeardlist, which shows the combination of the year variable and the variable of DLIST, is positive (and statistically significant at 5% significance level) we can conclude that the listed company reduce earnings management. This is due to the fact that the coefficient of this variable is lower than the coefficient of the Vyear meaning that we have lower level of earnings manipulation. This could be explained by the fact that listed companies face more market pressure. Moreover, listed companies are audited more carefully as there is more

possible auditors to get lawsuit by investors if the fail to properly audit the club. Furthermore, as we mentioned the adaption of IFRS is mandatory for listed companies. Although, researches have not concluded yet, it appears that the adaption of IFRS reduces the level of earnings manipulation.

[DACC]	Coefficient	Significance
Belgium	-.0968541	0.000*
Czech Republic	.0392348	0.425
Denmark	-.0786522	0.000*
Finland	-.1274754	0.002*
France	-.0735202	0.000*
Germany	-.0743123	0.002*
Greece	.0662662	0.072**
Italy	-.0683085	0.000*
Netherlands	-.0365595	0.120**
Spain	.0152357	0.600
Ukraine	-.0412486	0.432
United Kingdom	-.0240679	0.162
Norway	-.109176	0.010*
Poland	-.0615653	0.012*
X^2	*341.21*	0.000*
Overall R^2	*30.69%*	
Country dummies Included	*Included*	

Table 4: *Regression results on earnings management using discretionary accruals*

*Notes: *, ** indicate statistical significance at the 1% and 5% level respectively (p-value with two tailed test).*

Regarding the country dummies, football clubs of some countries seem to involve more in earnings management than others. To be more specific, Czech Republic and Spain although involve positively in earnings management the coefficient is statistically insignificant. Greece on the other hand has a positive coefficient but significant only at 10% significance level. Conversely, Netherlands, Ukraine and United Kingdom have negative coefficients but are

statically insignificant. Belgium, Denmark, Finland, France, Germany, Italy, Norway and Poland have also negative coefficients but are statistically significant at 1% significance level. That means that football clubs located in one of these countries involve less in earnings management.

The tables below, present Spearman correlation coefficients between the sample variables for the period before the implementation of the UEFA's Financial Fair Play Regulations (2009-2010) and the period after the FFP (2011).

Correlations	Cash Flow 2011	Accruals Residuals 2011
Cash Flow of 2011	1	-0.413
Accruals Residuals of 2011	-0.413	1

Table 5: *Spearman correlation coefficients between accruals and cash flows residuals 2011*
Number of observation: 83
Notes: the Correlation is significant at the 1% level (two tailed test).

Correlations	Cash Flow 2009-2010	Accruals Residuals 2009-2010
Cash Flow of 2009-2010	1	0.003
Accruals Residuals of 2009-2010	0.003	1

Table 6: *Spearman correlation coefficients between accruals and cash flows residuals 2011*
Number of observation: 164

As we observe, the correlation coefficient between the cash flows of 2009-2010 and the accruals residuals of the same period, was positive (0,003) but insignificant. On the other hand, the correlation coefficient between cash flow of 2011 and accruals residuals of the same period was negative (-0.413) indicating the negative association between cash flows and accruals residuals. Barth, Landsman, and Lang (2008) at their study supported that the more negative the correlation between accruals and cash flows is, the higher the income smoothing that the company involves in. A possible explanation seems to be the fact that managers respond to poor cash flow outcomes by increasing accruals. The results provide some initial support to our hypothesis which suggests that clubs increase earnings manipulation during 2011 in order to comply with the Financial Fair Play Regulations.

Chapter 7: Conclusion, Limitations, Contribution and Recommendations

The scope of this study was to investigate the impact of the implementation of the Financial Fair Play Regulations on the quality of the accounting earnings of the European football clubs. The sample includes financial data of 84 football clubs from 14 countries for the period 2009-2011. The earnings management was measured by income smoothing and accruals manipulation. This study gives evidence to the assumption that the implementation of the Financial Fair Play Regulations will increase earnings manipulation dictating the necessity of authorities (government, auditors) to take all the appropriate actions in order to protect the interests of shareholders and various stakeholders. Specifically, our findings suggest that clubs increased earnings management during 2011 in order to comply with the regulations of UEFA. It appears, though, that listed clubs involve less in earnings management.

The findings of this study could prove useful to regulators, auditors, stakeholders and managers of football clubs since they have policy implications for all these related parties. Regulators should take into consideration that football clubs might use earnings management in order to achieve the objectives that UEFA has set. It will be necessary for the regulators to carefully control the accounting numbers that clubs will provide to them in order to get the license. Furthermore, the auditors should also be cautious when auditing football clubs because the latter have a significant reason to manipulate their financial statements. Considering the stakeholders of the clubs, they must bear in mind that the reported earnings may deviate from the actual earnings of the club. They should require supplementary information in order to reach a better decision because earnings might not be highly informative. Among the major stakeholders of the clubs are the banks because the majority of the clubs are unlisted and the only source of financing is the banking sector. Undoubtedly, banks require transparent and reliable information in order to provide liquidity to the clubs. As a result, managers of the football clubs should keep in mind that a bad quality of financial reporting will not only prevent football clubs from granting the license to play in the UEFA's championship but also will cause liquidity problems to them.

Despite the fact that our research was based in methods proposed by the related literature, there are three limitations that should be highlighted. The first limitation is the difficulty of finding football clubs that have the necessary data for the period under investigation. This resulted to a small final sample for the estimation of regression and may lead us to a biased result. Secondly, the data span a relatively short time period (2009-2011). Finally, the third limitation of this study is that the implementation of the Financial Fair Play Regulations requires that football clubs should assess the break-even point covering the financial years ending 2012 and 2013. Thus, we believe that earnings manipulation will be even higher during these periods. The contribution of this research to the literature is that it investigates the impact of the UEFA's Financial Fair Play Regulations on earnings management of European football clubs by examining a sample for the period 2009-2011.

The suggestions for future research concern the extension of the present findings for further investigation of this study. For instance, doing the same research, by examining relation between the implementation of the Financial Fair Play Regulations and earnings quality during 2012 and 2013 when clubs are expected to increase the earnings management in order to grant the license in order to be able to attend UEFA's championship.

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